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A Time to Reflect

Over the last few years, the Charities Directorate has been concentrating on developing and implementing a comprehensive reform package designed to strengthen the regulatory environment for charities. As a result of this work, we believe that all stakeholders will benefit from a transparent system, a regulatory framework that is fair, a wealth of information available to those seeking to make educated decisions regarding charities and their operations, and the continued assistance of high-quality staff throughout all facets of our operation.

During the 2006-2007 fiscal year, an enhanced audit program was implemented to advance and support our ability to address the most serious compliance issues. Additional staff, new risk management practices, and the use of auditors in the tax services offices have allowed us to double our audit coverage over the last two years. The results of our audits have been consistent with an "education-first" approach to compliance. In fact, of the audits completed in 2006-2007:

- 52 percent resulted in education letters to the charity to explain the rules and suggest appropriate corrective actions. In these cases, the non-compliance was relatively minor in nature;
- 22 percent required no changes;
- 20 percent resulted in compliance agreements, which are negotiated between the CRA and the charity. Compliance agreements outline the non-compliance issues and remedial actions that the charity has agreed to undertake to comply, and details the consequences of continued infractions; and
- 3 percent resulted in revocation.

The remaining 3 percent of cases were comprised of annulments, pre-registration audits, and voluntary revocations. Aside from the most serious cases of non-compliance, we will continue to provide charities with the opportunity to correct their actions through education and compliance agreements before resorting to other measures.

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An important requirement of charitable registration is the annual filing of the T3010A *Registered Charity Information Return*. In order to assist charities in fulfilling this obligation, and as another step towards increased electronic services, we have developed and implemented a "fillable" T3010A, available through the Charities Directorate Web site at **http://www.cra-arc.gc.ca/E/pbg/ tf/t3010a/t3010a-fill-05e.pdf**.

This fiscal year has also seen a substantial focus on ensuring that charities file their annual information returns on time. Annual information returns are a key accountability tool, and they must be filed within six months of the charity's fiscal period end. A significant percentage of charities file their returns late and hundreds of them have their charitable status revoked each year for failure to file. More than half of these organizations decide to re-apply. In order to address the situation where an organization's charitable status is revoked for failure to file, we have focused on three areas:

- educating charities about the importance of filing their annual information returns, in particular through the Charities Partnership and Outreach Program and the development of a public education campaign;
- changing our processes so that a reminder to file notice is sent to charities one month prior to the annual information return's due date; and
- applying a $500 late-filing penalty on organizations that choose to re-apply after being revoked for failing to file their annual information returns.

Since these changes have only recently been implemented, we have yet to collect measurable results from this initiative. However, we anticipate that this strategy will help reduce the amount of revocations for failure to file.

Promoting compliance includes ensuring the availability of information to the sector. The Client Interface and Service Division, newly created to bring a stronger focus to our outreach activities and external communications, is working to meet this objective.

For example, the Charities Directorate Roadshow will see some changes, which are detailed in this year's Director General's letter on the Roadshows. A copy of this letter was sent to charities at the end of March 2007. This past fiscal year, we provided 67 Roadshow sessions in 41 cities across all 10 provinces. We will continue to offer these sessions across the country in 2007-2008.

In addition, you may have read about the Charities Partnership and Outreach Program in Newsletter 23 and 26. In this issue, you will find information regarding the two organizations with which we have signed agreements, along with details regarding their programs. We are also encouraged by the continued level of interest in this program, as shown during our second call for applications, which closed on December 22, 2006.

Facilitating the accessibility of publicly available charity information is another key focus for the Charities Directorate. For example, we have collaborated with provinces to develop consumer calendars and pamphlets to promote informed donating. We have continued to improve the registered charities search feature on our Web site in order to meet this objective. We have also implemented a new section on our Web site entitled "Giving to charity: Information for donors," an initiative you can read more about in this Newsletter. In the coming fiscal year, we will continue to raise awareness and promote accountability through public education.

In addition, the Charities Directorate continues to communicate regularly with the charitable sector through meetings with our Technical Issues Working Group, and a stakeholder forum that was held on March 27 and 28, 2007. Both of these venues provide the sector with a way to put forth suggestions on policy matters.

While these program enhancements are an important step towards advancing charity regulation, the magnitude of these changes over the short term has meant that a fairly substantial portion of the Charities Directorate's resources focused on staffing, orientation, and training, while at the same time delivering on its reform commitments and carrying on its daily business. As a result, inventories increased, which affected our timelines in terms of new applications and requests for client services.

Today, I am pleased to tell you that measures such as streamlining processes, just-in-time training, improvements to information systems, additional staff, and overtime have been put in place to achieve stability and reduce inventories. With our improved position, we have streamlined our processes to provide a thorough review and response to applications within established timeframes (two months for simple applications and six months for regular stream applications) at least 80 percent of the time.

Also, during the 2006-2007 fiscal period, the inventory of files in our Client Service section has declined from 2,396 files to 619 files. With increased staff in this area and a comprehensive training process recently coming to an end, we expect this decline to continue into the next fiscal year.

Looking ahead to 2007-2008, we will continue to focus on service delivery, providing better information for charities and the public, and effective management of risks. In doing so, we aim to promote compliance through education, quality service, and responsible enforcement. This will contribute to the integrity of the charitable sector and the social well-being of Canadians.

Important Note

The Charities Directorate continues to move towards paperless communication with charities to support sustainable development, to provide timely and up-to-date information, to remain fiscally responsible, and to ensure continued compliance by both the charities sector and the public. We encourage all charities to subscribe to the Charities Directorate What's New Electronic Mailing List (EML), a free service to help us serve you better. We also encourage charity officers, directors, and employees to sign up using their own personal email address.

Subscribers to the EML are notified by email about new policy statements and commentaries, draft guidelines for consultation, new calls for proposal for the Charities Partnership and Outreach Program, various outreach activities, the Charities Newsletter, and substantial changes or new information added to the Charities Directorate Web site. We send approximately 20 emails to our subscribers over the course of a year. You will only receive emails relating to the Charities Directorate through this electronic mailing list.

In the near future, the EML will become a more vital outreach tool for the Charities Directorate because 2007 will be the last year for using the mail system to send information and invitations to the Charities Roadshows. Starting in 2008 all information about the Roadshows will be available through the Web site only.

To subscribe to the electronic mailing list, please visit our Web site at **http://www.cra.gc.ca/eservices/maillist/subscribecharities-e.html**, and follow the easy steps.

Various other Canada Revenue Agency (CRA) electronic mailing lists are also available. We invite you to visit **http://www.cra.gc.ca/eservices/maillist/subscribe-e.html** for the complete list of topics.

The CRA takes your privacy very seriously. Any and all information that you provide when you sign up for this electronic mailing list will remain completely confidential. Our lists will not be shared with any other organization. For further information, we invite you to read our statement on privacy protection at **http://www.cra.gc.ca/eservices/maillist/privacy-e.html**.

Facts and Figures

Registration Statistics

In Registered Charities Newsletter 25, we presented a reformed application process for those interested in becoming a registered charity. This was triggered by the implementation of recommendations from the report called *Strengthening Canada's Charitable Sector: Regulatory Reform*. The report was prepared by the Joint Regulatory Table, an advisory body created under the Voluntary Sector Initiative.

Specifically, Recommendation 33 states that "[t]he regulator should establish a policy of denying applications **where applicants do not respond within 90 days** to communications from the regulator". Effective June 13, 2005, an administrative change was implemented to this effect. As applicants who have not responded within the prescribed timeframe have received such letters, the number of final turndown letters increased compared to the previous fiscal year.

After receiving a formal decision on their file, applicants who were denied registration can choose the newly created appeals process, which is discussed below.

Decisions on Applications

2006/2007 (Quarterly)	Applications	Registrations	Final Turndown (FTD)
Q1	861	451	73
Q2	778	657	86
Q3	1,026	531	69
Q4	936	830	98
TOTAL	**3,601**	**2,469**	**326**

Comparison to 2005/2006 Fiscal Year

2005/2006 (Quarterly)	Applications	Registrations	Final Turndown (FTD)
Q1	1,004	800	14
Q2	892	607	5
Q3	965	699	7
Q4	873	820	26
TOTAL	**3,734**	**2,926**	**52**

We would, therefore, like to remind applicants that organizations have **90 days to provide us with a response** to our communications regarding pending applications for registration as a charity.

What's New?

New Re-registration Process

Every year, charities must file an annual information return, Form T3010A, within six months of their fiscal year end. Charities that fail to file an annual return are subject to the revocation of their charitable status. Any organization in this situation that wants to re-register as a Canadian charity should be aware that the CRA has implemented a new re-registration requirement.

The new re-registration requirement comes as part of legislation that was enacted based on Recommendation 63 of *Strengthening Canada's Charitable Sector: Regulatory Reform*, allowing for the implementation of a $500 late filing penalty to charities. As an administrative concession at the present time, the Charities Directorate has decided only to implement this penalty when an organization is applying for re-registration after revocation for failure to file the annual Form T3010A, *Registered Charity Information Return*.

Subsection 188.1(6) of the *Income Tax Act* (the Act) allows the Minister to impose a penalty on a registered charity that does not file an annual return. Organizations that have had their charitable status revoked for not filing an annual information return and that choose to apply for re-registration as Canadian charities will be subject to this $500 penalty depending on their taxation year and when they received their notice of intention to revoke.

As has been the case in the past, if an organization's charitable status is revoked for failure to file, it may re-apply by providing all missing annual information returns, as well as Form T2050, *Application to Register a Charity Under the Income Tax Act*. Organizations are encouraged to visit our Web site at **http://www.cra.gc.ca/tax/charities/newregistration-e.html** for more details. This Web page will help determine what revocation situation pertains to them and what is required for re-registration.

Objections and Appeals on Issues Relating to Charities

One of the components of regulatory reform consisted of implementing a more accessible appeal process (as discussed in *Registered Charities Newsletter* No. 25). Previously, if a charity wanted to challenge a CRA decision, its only recourse would have been to appeal the decision to the Federal Court of Appeal. The 2004 Budget proposed making the appeal process more accessible and affordable for charities by granting them access to the existing CRA objection process that other taxpayers use.

The Appeals Branch is responsible for the objection process and its mandate is to conduct fair, transparent, and impartial reviews of the decisions rendered by the CRA. The Charities Redress Section in the Appeals Branch at Headquarters processes all objections involving charities.

Objection process

A charity may object to the following notices issued after June 12, 2005:

- Notice of refusal of registration;
- Notice of intention to revoke a registration;
- Notice of annulment of a registration;
- Notice of designation of registered charities as public or private foundations, or charitable organizations;
- Notice of assessment concerning a revocation tax or one of the financial penalties applicable to charities;
- Notice of suspension of tax-receipting privileges and qualified donee status.

When a charity receives such a notice and considers that the CRA has not interpreted the facts or applied the law correctly, the charity can object in writing to the Assistant Commissioner of the Appeals Branch at 250 Albert Street, 13th floor, Ottawa ON K1A 0L5. This objection must set out the reasons for the objection and all the relevant facts.

The objection must be filed no later than 90 days after the mailing date of the notice. If a charity does not file its objection on time due to circumstances beyond its control, the charity can apply for an extension of the time limit to file an objection. This extension must be requested as soon as possible but no later than one year after the date on which the charity had to file the objection. The charity must explain why the objection was not filed on time. The Director General, a director, or a manager of the Tax and Charities Appeals Directorate in the Appeals Branch grants or refuses the request for an extension and communicates this decision in writing. When an extension is granted, the objection is considered to have been filed on the day the CRA mailed its decision notice. This objection will then be processed as usual. When an extension is refused, the charity can apply, within 90 days of the day the refusal notice was mailed, to the Tax Court of Canada for further consideration.

Objections filed by charities will be assigned to an appeals officer in the Charities Redress Section at the Appeals Branch. The appeals officer must conduct an impartial review of the decision made with respect to the charity, ensure that the charity understands the reasons behind the decision, and analyze the arguments that the charity presented in the objection. Following this review, the Minister (whose authority is delegated to managers at the Tax and Charities Appeals Directorate) may confirm, vacate, or, in some cases, vary the notice issued by the CRA.

Process for appealing to the courts

It is important to note that the objection process is now mandatory before the issue can be appealed to a Court.

If a charity disagrees with the CRA's decision concerning its objection, then the charity has the right to appeal to a court. There are two appeal processes.

1. For objections concerning a notice of refusal of registration, a notice of intention to revoke a registration, a notice of annulment of a registration, or a notice of designation, the charity must appeal to the **Federal Court of Appeal** within **30 days** of the date on which the CRA notified the charity of its decision concerning the objection.
2. For objections concerning a notice of assessment or a notice of suspension, the charity must appeal to the **Tax Court of Canada** within **90 days** of the date on which the CRA notified the charity of its decision concerning the objection.

Subsequently, a charity can appeal a Tax Court of Canada decision to the Federal Court of Appeal. A Federal Court of Appeal decision can be challenged before the Supreme Court of Canada, with the authorization of that Court.

Telephone and email enquiries

The Charities Redress Section provides telephone and email enquiry services for members of the public requiring additional information concerning the objection and appeal processes. To access these services, you can leave a message in the voice mailbox at 613-960-2447 or send an email to **Appeals.CRS/Appels.SRMB@cra-arc.gc.ca**. If you do not receive an acknowledgment of your communication within two working days of sending your request for information, please contact the Charities Redress Section again to ensure your message was properly received.

Capital Gains Exemption on Gifts of Securities

Important changes were announced in the Federal Budget 2006 that were designed to encourage charitable giving by providing charities with a new opportunity to attract additional funding. Effective after May 1, 2006, gifts to registered charities, other than to private foundations, of publicly listed securities and gifts of ecologically sensitive land are exempt from capital gains tax.

Information on this topic can be found in P113, *Gifts and Income Tax*, available on our Web site at **http://www.cra-arc.gc.ca/tax/charities/formspubs/menu-e.html**. You can also visit the "Eliminating Capital Gains Tax on Donations to Charities and Increasing Support for the Arts" section of the Department of Finance's Budget 2006 Web site at **http://www.fin.gc.ca/budget06/bp/bpc3ce.htm**.

In addition, on Monday, March 19, 2007, the Minister of Finance announced measures to encourage charitable giving to private foundations in Canada as part of the Federal Budget 2007.

Budget 2007 proposes that, effective March 19, 2007, where a taxpayer donates publicly-listed securities to a private foundation, the associated capital gains tax will be reduced to zero. Additionally, where an employee who deals at arms-length with his or her employer acquires stock options and donates these within 30 days to a private foundation, an additional deduction may be available to offset the related employment income. Further information on this topic, including information regarding limits on a private foundation's business holdings, can be found on the Charities Directorate Web site **at http://www.cra-arc.gc.ca/tax/charities/budget-e.html**, and on the Department of Finance Web site at **http://www.budget.gc.ca/2007/bp/bpc3e.html#charitable**.

These changes bring the treatment of donations of publicly-listed securities to private foundations in line with the generous treatment already afforded to such donations to charitable organizations and public foundations.

Prospective donors who want information on how these gifts may affect their tax situation should contact the individual income tax enquiries at 1-800-959-8281. Business enquiries can be made to the Businesses and Self-Employed Individuals enquiries at 1-800-959-5525.

Charities Partnership and Outreach Program

As mentioned in the Director General's Reflection, the Charities Directorate recently launched the Charities Partnership and Outreach Program. We are pleased to announce that the first projects under this program were selected and two contribution agreements have been signed. These agreements have been established to educate and inform and to raise awareness of registered charities with respect to their legal obligations under the *Income Tax Act*, and in particular, with respect to Form T3010A, *Registered Charity Information Return*.

The agreement with the Legal Information Society of Nova Scotia, for $237,903, spans three years and is regional in scope. Under the terms of the agreement, the Legal Information Society of Nova Scotia will develop materials on how to accurately complete the Form T3010A. This information will be available on-line and in CD-ROM format. Information/training sessions will be delivered in the Atlantic Provinces.

The agreement with the Centre for Voluntary Sector Research and Development, Carleton University, for $1,353,400, spans three years and is national in scope. Training and support will be provided to charities throughout the country to facilitate compliance with their obligations under the *Income Tax Act*. Activities will include bilingual training events in communities across Canada and the development of local self-help or mentoring networks.

For more information regarding the Charities Partnership and Outreach Program, and the funding priorities for 2006 to 2008, we invite you to visit our Web site at **http://www.cra.gc.ca/tax/charities/funding/menu-e.html**.

Public Education Campaign

If you have visited the Charities Directorate's Web site at www.cra.gc.ca/charities, you know that most of the information provided is there for you, the registered charities that support and enrich our communities. You are our prime audience, and we strive to provide you with valuable, supportive information.

However, we have become aware, over recent years, of a gap in our outreach efforts. Recent public opinion research conducted by the CRA, as well as studies undertaken by various other organizations such as the Muttart Foundation, reveal that most Canadians are not aware that the CRA regulates registered charities in Canada. If potential donors are not aware of the CRA's role, then they are missing a key piece of information related to their support of registered charities in Canada.

In response, the Public Education team of the Charities Directorate has developed a comprehensive plan to:

- raise awareness of registered charities and charity regulation;
- increase the profile of the CRA as a regulator; and
- increase the public's ability to make informed donor decisions.

The first step was to produce a user-friendly, donor-focused section called "Giving to Charity: Information for Donors" available at **www.cra.gc.ca/charities**. The site provides information about tax savings, donation receipts, the regulation of charities, and being an informed donor. We invite you to include a link to this site from your own Web site or to include the address in your published materials, including your official donation receipts. Sample official donation receipts can be viewed at **www.cra.gc.ca/tax/charities/pubs/receipts-e.html**.

"Giving to Charity: Information for Donors" also invites potential donors to research the CRA's Charities Listings. As you may be aware, this is a database of all the registered charities in Canada. Donors can search these listings by charity name, location, category and registration status and, once they find a charity that interests them, they can read all of the publicly available information on its *Registered Charity Information Return*.

This means that your annual *Registered Charity Information Return* is a way for your charity to inform potential donors: the more complete and clear the return is, the easier it is for a donor to understand your charity's activities and finances. Conversely, an incomplete or inaccurate return might affect your charity's appeal to a donor, so it is in your best interest to invest sufficient time in preparing your return. If your organization wants to amend a previous year's return, please fill out Form T1240, *Registered Charity Adjustment Request*, which is available at **http://www.cra.gc.ca/E/pbg/tf/t1240/README.html**, and send it to us using the contact information provided on the form.

"Giving to Charity: Information for Donors" is only the first step in our multi-pronged public education campaign. We will also be creating materials such as a brochure, posters, and speaker's kits that will be distributed by the CRA and through our partners. We will notify you when these materials are available and hope that you will include some of them in your own mail campaigns. We also intend to publish public notices in Canadian newspapers to direct people to our Web site, and we will be participating in various public events and exhibitions.

The CRA recognizes the value of charitable giving and the important contribution that Canada's registered charities make towards improving the quality of life in our society. Through our public education campaign, we hope to create an environment in which donors continue to feel confident about supporting registered charities in Canada, which ultimately benefits us all.

CRA Hosts First International Conference

On October 17 and 18, 2006, the Canada Revenue Agency proudly hosted the first international conference of charities regulators from common-law jurisdictions. Participants included senior officials from Australia, England, Wales, Ireland, New Zealand, Northern Ireland, and the United States.

The goals of the conference were to:

- share best practices in innovative regulatory approaches;
- strengthen policy capacity by exploring common policy issues; and
- develop a framework for ongoing communication and collaboration.

Most of the participating jurisdictions are undergoing reforms either in legislation or in administrative practice. It was evident that our jurisdictions have much in common, regardless of the type of organization that is responsible for regulating charities. Specific topics of discussion included:

- the impact on the regulation of charities of increased diversity and multiculturalism;
- the need for extensive analysis and policies in the face of limited jurisprudence;
- the different approaches to charities' involvement in business activities;
- public disclosure of information by regulators and the use of the media as a vehicle for sector and public education; and
- the challenge of preventing charity status being used to cover support for terrorism.

All participants agreed that the meeting was of great value. Sharing lessons learned and different perspectives on common challenges benefited all in attendance.

The conference concluded with unanimous agreement to establish a forum for ongoing international consultations between regulators. A follow-up conference is expected to take place in 2007-2008.

Publications Update

New Fillable T3010A

In response to requests from the voluntary sector, the Charities Directorate is pleased to announce that a new fillable form has now been made available online: T3010A, *Registered Charity Information Return*, along with attachments. This form can be filled out on your computer before printing and mailing to the Charities Directorate. This is a first step towards our goal of providing charities with the opportunity to file their annual information return electronically.

Please note that the information entered on the fillable form cannot be saved electronically for future use unless users have more advanced versions of Adobe Acrobat (for example, Adobe Acrobat Standard 6.0 and Adobe Acrobat Professional 6.0). For additional information on fillable forms, please visit our Web site at **http://www.cra.gc.ca/formspubs/fillable/help-e.html**.

The fillable version of Form T3010A and its attachments features help functions, links to Guide T4033A, *Completing the Registered Charity Information Return*, and "light bulb" prompts that provide special instructions for specific actions.

Other fillable forms are available, such as Form T2046, *Tax Return Where Registration of a Charity is Revoked*, which is available at **http://www.cra.gc.ca/E/pbg/tf/t2046/README.html**. We are also working to develop more fillable forms at this time. We will post information in the "What's New" section of our Web site as these forms and updates become available. Remember that by registering with our Charities Directorate What's New Electronic Mailing List (see Important Reminder above), you will automatically be notified by email as new information becomes available.

Contact Information

If you are unable to find the information you are looking for on our Web site, you can contact the Charities Directorate toll free at:

1-800-267-2384 (for service in English)
1-888-892-5667 (bilingual)

You can also write to us at:

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

Email your comments or suggestions:

about this newsletter to:
charities-bienfaisance-bulletin@cra-arc.gc.ca

about our draft policy documents to:
consultation-policy-politique@cra-arc.gc.ca

about our Roadshow to:
Information.Sessions@cra-arc.gc.ca

about our Web site to:
Charities-Bienfaisance@cra-arc.gc.ca

You can find all our publications at:
http://www.cra-arc.gc.ca/tax/charities/formspubs/menu-e.html

Draft policies for consultation are available at:
www.cra.gc.ca/tax/charities/consultation_policy-e.html

For information on new additions about charities, see the "What's new" page at:
www.cra.gc.ca/tax/charities/whatsnew/whatsnew-e.html

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